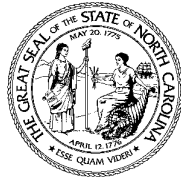


# INTRODUCTORY SECTION



# State of North Carolina Office of the State Controller

James B. Hunt, Jr.  
Governor

Edward Renfrow  
State Controller

The Honorable James B. Hunt, Jr.  
Governor of the State of North Carolina, and

Members of the North Carolina General Assembly

It is our pleasure to furnish you with the 1997 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.39. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the State of North Carolina. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

For the convenience of users we have divided this comprehensive annual financial report into three major sections, described as follows:

- The **introductory section** includes this transmittal letter and the State's organization chart, including a listing of principal State officials.
- The **financial section** includes the general purpose financial statements (combined statements, the notes, and the required supplementary information) the combining and individual fund and account group financial statements, and schedules.
- The **statistical section** includes selected financial, non-financial and demographic information, much of which is presented on a ten-year basis, as well as required supplementary information.

## *State Reporting Entity and Its Services*

The State of North Carolina entity as reported in the CAFR includes all fund types and account groups of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. Most component units are presented discretely in the financial statements. Two component units are blended into the financial statements because their activities are so intertwined with the State that they are substantively part of the State. The State's discretely presented component units are the University of North Carolina system, the State's community colleges, and various proprietary organizations providing specific services to the public and private sector. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including public education; higher education; human resources; economic development; environment, health and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

## *Major Initiatives*

In 1997, the General Assembly again made a priority of the key issues facing the citizens of North Carolina: education, the environment, tax relief, social programs, crime, and economic development.

### *Education*

By approving the largest bond issue in the state's history - \$1.8 billion earmarked for school construction - the voters of North Carolina made it clear that they want a system of schools of which they can be proud. The first installment of \$450 million was issued in March 1997. The next step is to make sure that the quality of instruction occurring inside North Carolina's school buildings is equal to the new facilities. A foundation must be built to advance the priorities established by the State Board of Education. Four initiatives provide the cornerstones of this foundation. Foremost among them is the State Board of Education's ABCs Plan that provides the framework for all of its recommendations.

The ABCs Plan reflects simple, but powerful, beliefs - that schools should be held accountable to high standards; that all children graduating from North Carolina's schools should have a solid grasp of reading, mathematics, writing and technology skills; that local communities and educators should be empowered to make vital decisions about schools. The ABCs accountability measures went into effect in schools with grades K-8 in the 1996-97 school year. High schools will follow in 1997-98. The work of three other groups, when brought together inside the framework of the ABCs Plan, completes the cornerstones upon which excellence can be built:

#### **North Carolina Education Standards and Accountability Commission**

The Standards and Accountability Commission's proposed system of high standards and performance assessment directly builds and strengthens the accountability component of the ABCs Plan by adding student accountability to a model of school accountability.

#### **Commission on Workforce Preparedness**

The Commission on Workforce Preparedness' goal of better preparing all young people for the world of work through its "JobReady" initiative is aligned with the educational basics philosophy of the ABCs Plan.

#### **School-Based Management Task Force**

The local control component of the ABCs Plan is based on the School-Based Management Task Force's belief that the people closest to the children and the schools are in the best position to make educational decisions.

### *Environment*

The General Assembly also put forth legislation pertaining to environmental issues during the 1997 session. A two year moratorium on new hog operations across the state was approved, as well as new zoning powers for regulating hog farming. Efforts are being made to clean up the State's waterways by imposing stricter pollution controls on municipal wastewater plants. The State's fishing regulations are also facing an overhaul, with a new law calling for stricter enforcement of fisheries laws and higher penalties for illegal fishing.

The law also requires that detailed plans be prepared for improving fisheries habitats and managing fish stocks.

## ***Tax Relief***

Effective July 1, 1998, the food tax will decrease from 3 percent to 2 percent. In addition, a temporary 9 percent reduction in the state inheritance tax, applicable to the estates of people dying after July 1, 1998, has been approved. This reduction will be repealed on October 1, 2000.

## ***Social Programs***

More than \$25 million in federal funds was awarded for welfare reform initiatives in North Carolina, and will be used to help fund the *Work First* program. These Welfare-to-Work grants will be used to create and promote jobs for those on welfare, for on-the-job training and job placement, for support services to keep people in their jobs and for additional child care and transportation. Since the *Work First* program was initiated in North Carolina last year, 42,000 families have been removed from the state's welfare rolls, representing a 26 percent decline. The program focus is on personal responsibility and finding a job for every able-bodied welfare recipient. Under program guidelines, participants have 12 weeks to find a job or begin job training.

Other welfare reform initiatives include a provision in the budget to allow counties that collectively include no more than 15.5% of the state's overall welfare caseload to experiment with setting their own rules on eligibility and level of benefits. For child welfare, \$4.4 million in state money has been included for the 1997 and 1998 budget. This money will be used to hire more workers for child protective services, foster care, and adoption.

A bill to establish a rating system for day care centers was approved during 1997. This rating system, which will distinguish centers meeting minimum standards from those at the top of those standards, will be phased in over the next 18 months at the state's 3,500 day care centers.

The State is also continuing its expansion of the Smart Start program, which provides day care assistance to families in participating counties, and a variety of other services, such as screening for vision and hearing. During 1997 the number of Smart Start counties will increase from 43 to 55. The remaining 45 counties will receive money to start planning services.

## ***Crime***

During 1997, the State continued its efforts of addressing crime in North Carolina. Punishments were increased for habitually drunken driving and a number of other crimes. The budget included \$740,000 for additional juvenile court workers. The budget also included a \$5.3 million fund to expand automated information systems for courts and magistrates.

## ***Economic Development***

The State's continuing construction and maintenance of its excellent system of roads and highways is paramount to our continued economic development. The issuance of \$950 million of State general obligation bonds was authorized by the General Assembly and approved by the voters on November 5, 1996. Of the \$950 million bond issue, \$500 million will go toward loop projects in seven urban areas, \$300 million will be earmarked for the intrastate system of multi-lane highways, and the remaining \$150 million will be used to accelerate the paving of unpaved secondary roads. On November 5, 1997, \$250 million of Highway Bonds, Series 1997A were sold.

## *Economic Condition and Outlook*

### ***Economic Outlook***

The North Carolina economy grew for the sixth straight year in 1997. The broadest measure of the state economy, Gross State Product, grew at an estimated 4.9% rate in 1997, faster than 1996's rate of 3.7%. The growth pushed the State's seasonally adjusted unemployment rate to under 4% by mid-year. The inflation and interest rate environment was also favorable in 1997. Inflation at the retail level hovered near 2% for the year. The benchmark 30-year Treasury bond rate ranged between 6% and 6.5% in 1997, and was at the lower end of this range at year's end.

When the numbers are all in, between 35,000 and 50,000 net new jobs will have been created in the North Carolina economy during 1997. The leading job creating sectors were services, durable goods manufacturing, wholesale trade, and financial services. Within durable goods manufacturing, lumber and wood products, fabricated metal products, and electronic equipment led in new jobs.

Textile and apparel firms in the State continued to downsize employment during the year. However, the good news was that jobs were cut at a slower rate in 1997 than in 1996.

Regionally, areas in the western part of the State were the fastest growing. Much of this growth was led by tourism and retirement relocations.

The outlook for the North Carolina economy in 1998 is upbeat, although including some caution. The North Carolina Gross State Product will increase, but at a slower inflation-adjusted rate of 2.5%. This is about half of 1997's rate. The State will add between 60,000 and 80,000 jobs in 1998. Jobs will increase the most in the service, retail trade, durable goods manufacturing, and government sectors. The North Carolina unemployment rate should remain below 4% during the year. Most regions of the State should share in the growth. The fastest growing regions will be a combination of western and eastern areas, including counties in the mountains and counties in the "downeast" section of the State.

The two biggest threats to the economy are inflation and consumer debt loads. Although not a problem now, the length of the current expansion and tight labor markets suggest that inflation is on the verge of increasing. Any solid signals that the inflation rate is rising will likely prompt the Federal Reserve to raise interest rates. Of course, higher interest rates will slow the economy and threaten continued growth.

The other threat is the high debt loads currently carried by consumers. Consumer debt service as a percentage of disposable income is near a historic high. The danger is that any negative shock to the economy, such as a steep stock market drop or an international crisis, could cause consumers to re-trench and significantly cut their spending. Since two-thirds of the economy is consumer spending, any slowdown by consumers can lead to a general economic downturn.

All in all, the outlook for 1998 is one of cautious optimism. Currently, the economic fundamentals are good. But the economic expansion is becoming quite old, and this always raises questions about its sustainability.

— Economic analysis prepared by Dr. Michael L. Walden, Professor  
North Carolina State University  
October 30, 1997

## *Financial Information*

### ***Internal Control***

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal financial assistance, the State also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management, internal audit staff, and independent auditors of the government.

## Budgetary Control

In addition, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund and most departmental special revenue funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level by way of quarterly allotments, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. This "Certified Budget" is the legal expenditure authority; however, executive changes to the legal budget may be approved by the Office of State Budget and Management (OSBM). This results in the "Final Budget" presented in the financial statements.

## GAAP Accounting

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143-20.1 requires the Office of the State Controller to prepare a comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP). Furthermore, the Governmental Accounting Standards Board and the nation's financial community have encouraged states to present, in their annual reports, financial statements of the governmental funds that are prepared on the modified accrual basis of accounting, following generally accepted accounting principles. Under this basis, which more adequately serves the financial community's analytical and other needs, revenues are recognized when they become both measurable and available to finance operations of the fiscal year, or to liquidate liabilities existing at fiscal year-end. Generally, expenditures are recognized when a liability is incurred. Except for exhibits and notes clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

## Results of Operations

### General Governmental Funds

Revenues and other financing sources for general governmental functions (General Fund, special revenue funds, and capital projects funds) amounted to \$21.9 billion for the fiscal year ended June 30, 1997, using the modified accrual basis of accounting. The major categories of revenues and other financing sources are shown in the following table. Amounts are expressed in millions.

	<b>Amount</b>	<b>Percent of Total</b>
<b>Revenues:</b>		
Taxes.....	\$ 12,178	55.5%
Federal funds.....	5,858	26.7%
Local funds.....	427	1.9%
Investment earnings.....	455	2.1%
Fees, licenses and fines.....	815	3.7%
Other.....	318	1.4%
Total revenues.....	<u>20,051</u>	91.3%
<b>Other Financing Sources:</b>		
Operating transfers in and other sources.....	1,241	5.7%
Proceeds from bond sale.....	645	3.0%
Total other financing sources.....	<u>1,886</u>	8.7%
<b>Total Revenues and Other Financing Sources.....</b>	<u><b>\$ 21,937</b></u>	<b>100.0%</b>

## Revenues and Other Financing Sources

## Analysis of Revenue Changes

**Tax Revenues.** Tax revenues increased by \$788 million in 1997, reflecting a continuing favorable economic climate in North Carolina. Income tax collections increased by \$471 million in 1997 to \$6.32 billion, an 8% increase over 1996. Sales tax collections grew by \$187 million in 1997, a 6.4% increase over 1996. Highway taxes were \$1.4 billion in 1997, \$62.6 million more than in 1996.

**Federal Funds.** Federal funds revenues grew by \$665 million in 1997, up by 12.8% over 1996. This increase in Federal funding is due in large part to the increased expenditures for Medicaid, Highway Planning and Construction, the recording of food stamps, and other social programs.

**Investment Earnings.** Revenues from investment earnings increased by \$26 million (exclusive of \$138 million in securities lending activity recorded for 1997, under GASB Statement 28) in 1997. The growth in 1997 can be directly attributed to a growing fund balance available for investment, a favorable investment climate, and the investment management strategies of the State Treasurer.

## Expenditures and Other Financing Uses

Expenditures and other financing uses for general governmental purposes totaled \$21.1 billion in 1997, using the modified accrual basis of accounting. The major categories of expenditures and other financing uses, by function, are shown in the following table. Amounts are expressed in millions.

	<u>Amount</u>	<u>Percent of Total</u>
<b>Expenditures:</b>		
Current:		
General government.....	\$ 921	4.4%
Education.....	4,777	22.7%
Human resources.....	6,824	32.4%
Economic development.....	295	1.4%
EHNR.....	668	3.2%
Public safety, corrections, and regulation.....	1,614	7.7%
Transportation.....	2,205	10.5%
Agriculture.....	65	0.3%
Capital outlay.....	147	0.7%
Debt service.....	<u>131</u>	0.6%
Total expenditures.....	<u>17,647</u>	83.9%
<b>Other Financing Uses:</b>		
Operating transfers out.....	1,190	5.5%
Operating transfers to component units.....	<u>2,232</u>	10.6%
Total other financing uses.....	<u>3,422</u>	16.1%
<b>Total Expenditures and Other Financing Uses.....</b>	<u><u>\$ 21,069</u></u>	100.0%

**Significant changes in expenditures** (exclusive of GASB Statement 28 activity). The trend of increases in expenditures for human resources, an increase of \$577 million for 1997, was directly related to the continued growth, although at a slower rate than the prior year, of the Medicaid, Aid to Families with Dependent Children programs, and food stamps. Educational expenditures increased by \$273 million largely because of growth in dollars spent on State administered programs and the increasing costs associated with providing public education. There were major increases in spending for public safety, corrections, and regulation of \$282 million. This increase can be traced largely to increased personnel costs at the Department of Correction (\$63 million) and public assistance payments to municipalities for damages sustained from Hurricane Fran at the



Department of Crime Control and Public Safety (\$92 million). Transportation expenditures increased in fiscal year 1997 by \$275 million.

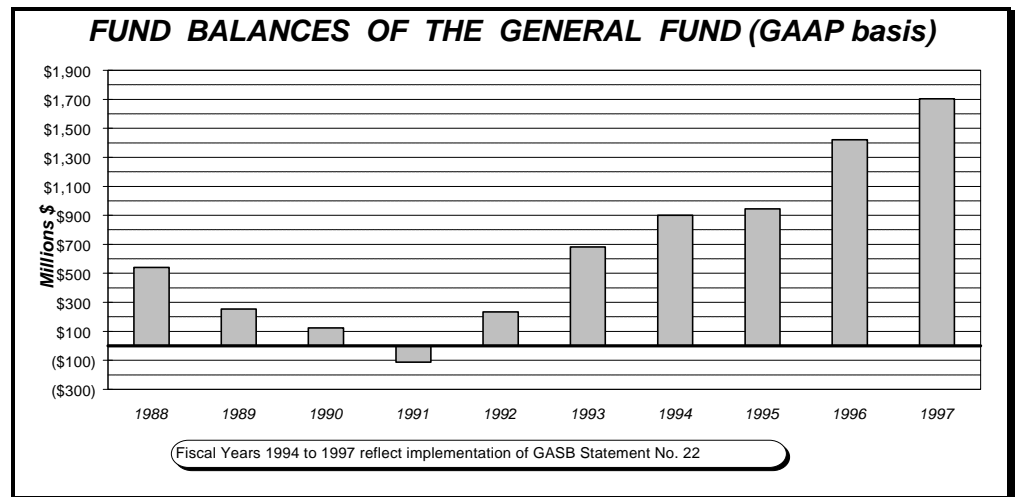
Additional information, in greater detail and for the past ten years, may be examined in the statistical section.

### GAAP Fund Balance

### General Fund

The fund balance of the General Fund grew by \$280 million in 1997. The growth in tax and other revenues once again exceeded expectations this year, which directly contributed to the strong condition of the General Fund at year end. At June 30, 1997 the fund balance of the General Fund on the modified accrual basis was \$1.7 billion, in comparison to a \$1.42 billion balance at the end of 1996.

The following chart illustrates the fund balances on the modified accrual (GAAP) basis of the General Fund for the last ten fiscal years.



### Savings Reserve

During the 1991 session, the General Assembly established a Savings Reserve Account as a restricted reserved portion of fund balance in the General Fund, becoming effective for the year ended June 30, 1992. Under this legislation, one-fourth of any unreserved credit balance (*defined by the General Statutes as "...the credit balance, as determined on a cash basis, not already reserved to the Savings Reserve Account."*) remaining in the General Fund at the end of each fiscal year will be transferred to the Savings Reserve until the account contains funds equal to 5% of the amount appropriated to the General Fund operating budget for the preceding year. On June 30, 1996, \$77.3 million was transferred into the Savings Reserve Account, bringing the total reserve to the 5% cap of \$500.9 million. On June 30, 1997, the balance in the savings reserve account was \$500.9 million with no additional contributions for fiscal year 1996-97.

#### Summary of Savings Reserve Account (in millions) :

Date	Description	Increase/ (Decrease)	Balance
	Reserve - Budget Stabilization (Rainy Day Fund).....		
June 1992	Statutory Reservation - G. S. 143-15.3.....	\$ 0.4	\$ 0.4
June 1993	Statutory Reservation - G. S. 143-15.3.....	41.2	41.6
July 1993	Withdrawal from Reserve .....	(121.0)	54.9
June 1994	Statutory Reservation - G. S. 143-15.3.....	155.7	210.6
January 1995	Budget Stabilization Appropriation.....	66.7	277.3
June 1995	Statutory Reservation - G. S. 143-15.3.....	146.3	423.6
June 1996	Statutory Reservation - G. S. 143-15.3.....	77.3	500.9
June 1997	Statutory Reservation - G. S. 143-15.3.....	—	\$ 500.9

***Repairs and  
Renovations  
Reserve***

The 1993 General Assembly, in an effort to provide for the State's capital needs, established the Repairs and Renovations Reserve Account (G.S. 143-15.3A). Repairs and Renovations Reserve Account is defined to consist of 3.0% of the replacement value of all State buildings supported from the General Fund, at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account are to be used only for the repair and renovation of State buildings and related infrastructure that are supported from the General Fund. For fiscal year 1996-97, the General Assembly placed \$135 million into this reserve to meet the statutory requirement and an additional amount of \$39.3 million to bring the balance in the Repairs and Renovations Reserve at June 30, 1997 to \$221.3 million.

***Clean Water  
Management  
Trust Fund***

For fiscal year 1995-96, the General Assembly established the Clean Water Management Trust Fund to finance projects to clean up or prevent surface water pollution (G.S. 113-145.3). The amount reserved in the General Fund each year is defined as 6.5% of any unreserved credit balance remaining in the General Fund at the end of the fiscal year or \$30 million, whichever is greater. For the 1996-97 fiscal year, \$49.4 million was placed in this reserve.

***Intangibles  
Tax  
Reserve***

For fiscal year 1996-97, the General Assembly established the reserve for intangibles tax refunds in the amount of \$156 million for the costs of intangibles tax refunds required by G.S. 105-267 and other intangibles tax refunds, including interest, and the Department of Revenue's additional costs of administering the refunds.

***North  
Carolina  
Railroad  
Acquisition***

For fiscal year 1996-97, the General Assembly established the Railroad Reserve Account. In order to help promote trade, industry, and transportation within the State of North Carolina and to advance the economic interests of the State and its citizens, the General Assembly finds it advantageous for the State to acquire the outstanding shares of the North Carolina Railroad Company not held by the State. At June 30, 1997, the amount of \$61 million of the unreserved General Fund balance was placed in the Railroad Reserve Account.

***Other  
Reserves***

In addition to the reserves referenced above, non-recurring one-time reserves were established in fiscal year 1995-96 by the General Assembly for a library grant for \$284 thousand. The balance in the Chemical Alcohol Testing Reserve is \$353 thousand.

**Other Funds*****Proprietary  
Funds***

Operating revenues and operating expenses for the State's enterprise funds were \$19.8 million and \$26.5 million, respectively, in 1997. Operating loss was \$6.7 million. Included in this operating loss is \$3.8 million loss attributable to the Public School Insurance Fund and its claims expenses arising from the aftermath of Hurricane Fran (Note 12 A.1.), and a \$2.5 million operating loss related to claims expense in the Workers' Compensation Fund (Note 12 A.2.). The State's significant enterprise funds include Public School Insurance Fund, N. C. State Fair, USS North Carolina Battleship Commission, Agricultural Farmers Market, Indian Cultural Tourist Center, and Workers' Compensation.

Combined operating results for the State's internal service funds exhibited continued strength in 1997. Operating revenues and expenses for these cost-reimbursement funds totaled \$955 million and \$926 million, respectively, in 1997. Principal internal service

fund operations include the State Health Plan, the Disability Income Plan, the Death Benefit Plan, Prison Enterprises, the State Property Fire Insurance, Motor Fleet Management, the Centralized Computing Services, and State Telecommunications.

### ***Pension Trust Funds***

The operations of the Teachers' and State Employees' Retirement System continued its steady growth in 1997. The system's contributions increased by 5.9%. The system experienced 10.3% increase in benefit payments to participants. For the fiscal year ended 1997, the State continued to fund the actuarial required contribution. The State also participates in the Consolidated Judicial Retirement System, the Legislative Retirement System, the Firemen's and Rescue Squad Workers' Pension Fund and the North Carolina National Guard Pension Fund. The Local Governmental Employees' Retirement System is administered by the State but the State is not a participant. Each of these systems continued to show a positive trend in funding.

### ***Debt Administration***

At June 30, 1997, the State had a number of debt issues outstanding. These issues included \$1.514 billion in general obligation bonds, \$1.14 billion in revenue bonds in the component unit proprietary funds and \$804 million in revenue bonds in the university funds. North Carolina continues to have "Triple-A" bond ratings issued by Standard and Poor's Corporation and Moody's Investors Service, the highest ratings attainable. These favorable ratings have enabled the State to sell its bonds at interest rates considerably below the Bond Buyer's Index, thereby providing substantial savings to North Carolina taxpayers. North Carolina is one of only a very small number of states currently having the Triple-A ratings. In addition, approximately 25 percent of all Triple-A ratings for state and local governments nationwide are located in North Carolina.

### ***Cash Management***

It is the policy of the State that all agencies, institutions, departments, bureaus, boards, commissions and officers of the State shall devise techniques and procedures for the receipt, deposit and disbursement of monies coming into their control and custody which are designed to maximize interest-bearing investment of cash, and to minimize idle and nonproductive cash balances. The State Controller, with the advice and assistance of the State Treasurer, the State Budget Officer, and the State Auditor, develops, implements, and amends the *Statewide Cash Management Policy*. All cash deposited with the State Treasurer by State entities is managed in pooled investment accounts to maximize interest earnings. During fiscal year 1997, uncommitted State funds were invested in short-term and medium-term U.S. Government notes and bonds, as well as other deposits, which had a composite average yield of 6.484%.

### ***Risk Management***

The State has established a limited risk management program for fire and other property losses. As part of this comprehensive plan, resources are being accumulated in an internal service fund to meet potential losses. See Note 12 of the Notes to the Financial Statements for a full description of the State's risk management program.

## Other Information

### *Independent Audit*

In compliance with State statute, an annual financial audit of the State entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with generally accepted government auditing standards and his opinion has been included in this report. In addition, the State coordinates the "Single Audit" effort of all federal funds through the State Auditor.

### *Certificate of Achievement*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

### *Acknowledgments*

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout State government and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this Comprehensive Annual Financial Report should be directed to the Office of the State Controller at (919) 981-5454.

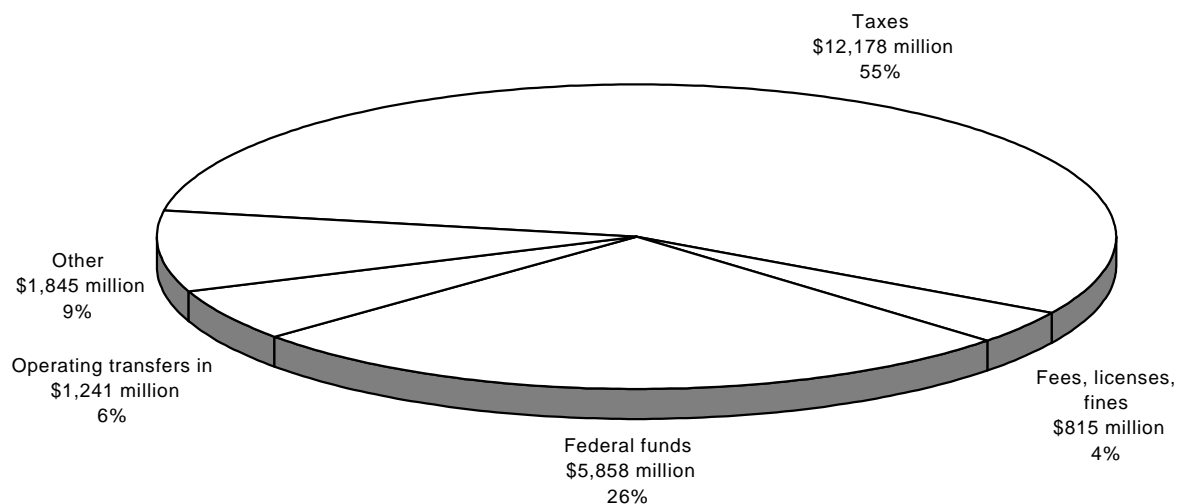
Respectfully submitted,

  
Edward Renfrow  
State Controller

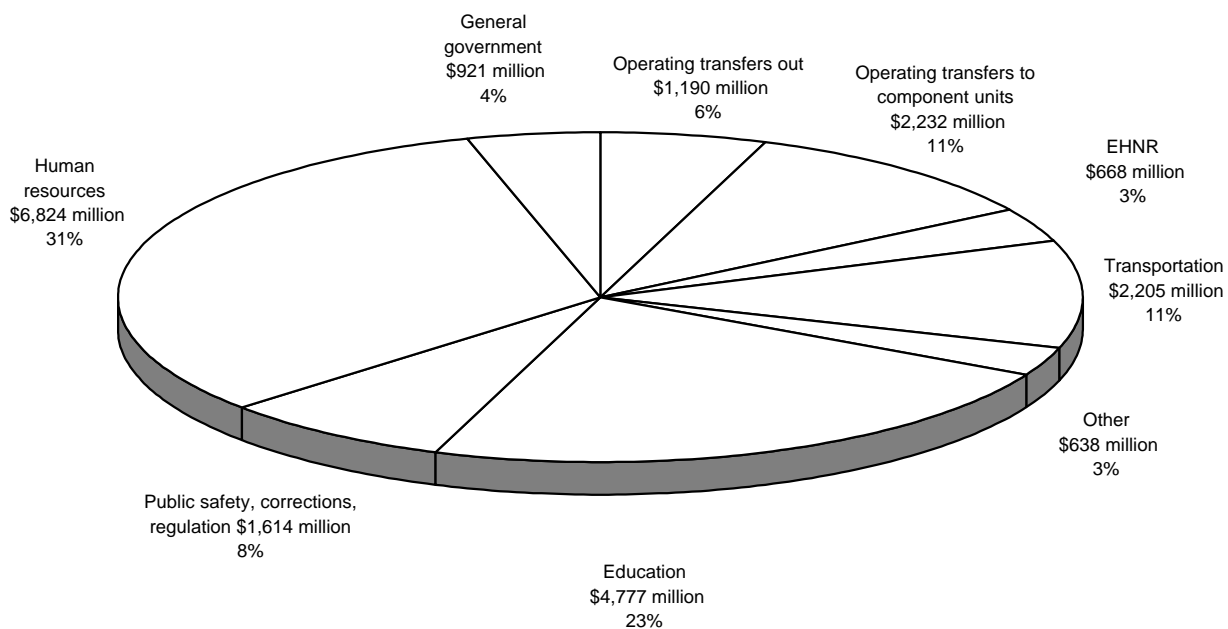
December 4, 1997

**General Governmental**  
**General, Special Revenue, and Capital Projects Funds**  
**For the Year Ended June 30, 1997**

**Revenues and Other Financing Sources**



**Expenditures and Other Financing Uses**



# CERTIFICATE OF ACHIEVEMENT

---

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



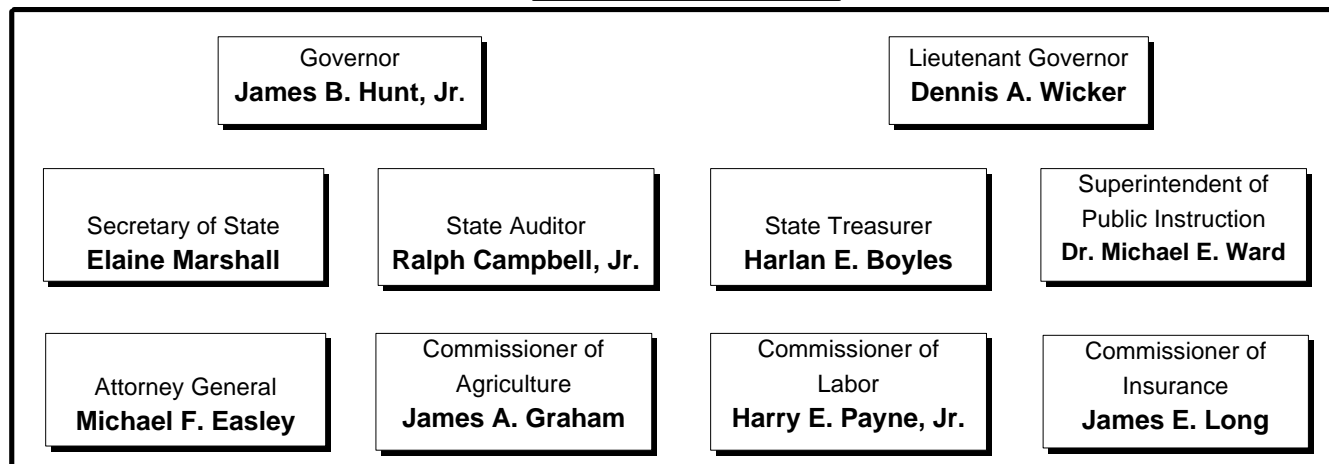
*Arthur R. Lynch*  
President

*Jeffrey L. Esser*  
Executive Director

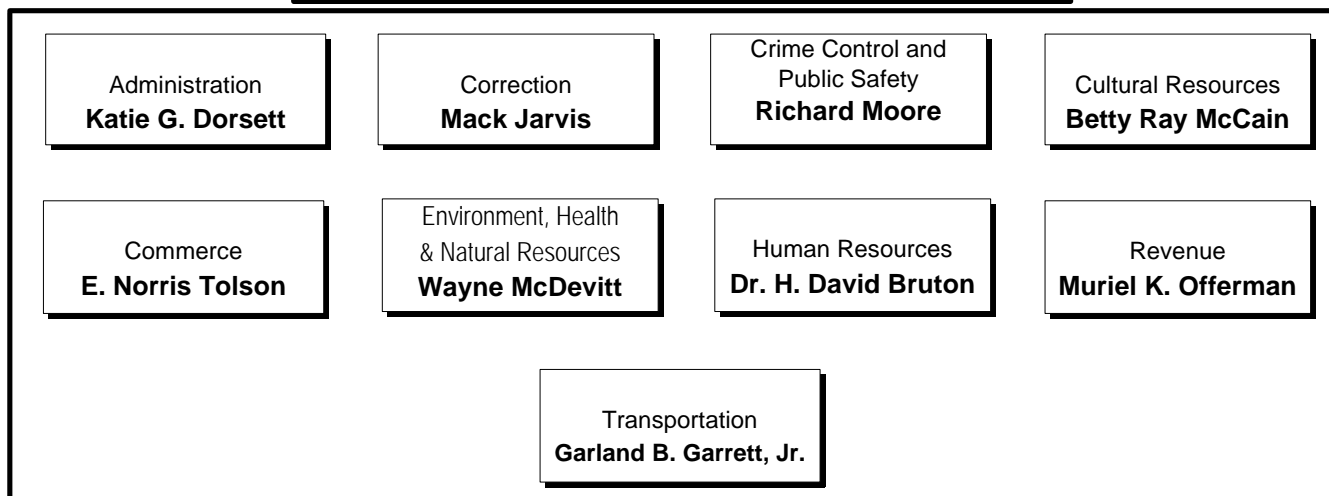
## ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

### EXECUTIVE BRANCH

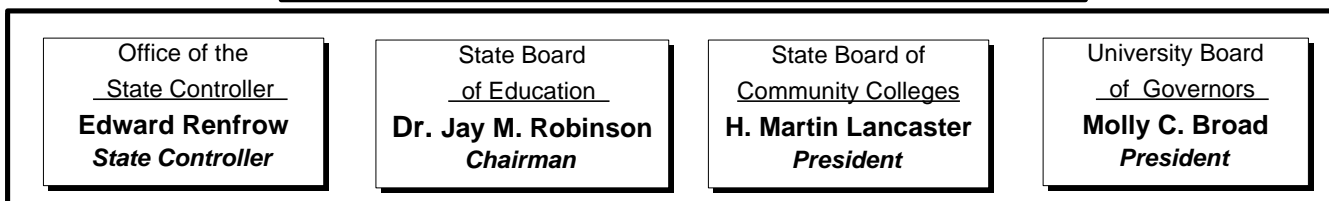
#### Council of State



#### Cabinet Secretaries—Appointed by the Governor



#### Appointed by Governor and Legislative Leadership





**LEGISLATIVE BRANCH****JUDICIAL BRANCH****General Assembly****Senate**

President  
**Lieutenant Governor**

President Pro Tempore  
**Marc Basnight**

Deputy Pres. Pro Tempore  
**R. C. Soles, Jr.**

Majority Leader  
**J. Richard Conder**

Minority Leader  
**Betsy L. Cochrane**

**House of  
Representatives**

Speaker  
**Harold J. Brubaker**

Speaker Pro Tempore  
**Carolyn B. Russell**

Majority Leader  
**N. Leo Daughtry**

Minority Leader  
**James B. Black**

**North Carolina  
Supreme Court**

Chief Justice  
**Burley B. Mitchell, Jr.**

Associate Justices  
**Henry E. Frye**  
**I. Beverly Lake**  
**Robert F. Orr**  
**Sarah Parker**  
**John Webb**  
**Willis P. Whichard**

Administrative  
Office of the Courts  
**James C. Drennan**

**Component Units****University of North Carolina System****Community  
Colleges****Proprietary  
Funds**